

VZCZCXRO9363
RR RUEHROV
DE RUEHDS #3036/01 2880844
ZNR UUUUU ZZH
R 150844Z OCT 07
FM AMEMBASSY ADDIS ABABA
TO RUEHC/SECSTATE WASHDC 8138
INFO RUCNIAD/IGAD COLLECTIVE

UNCLAS SECTION 01 OF 06 ADDIS ABABA 003036

SIPDIS

SIPDIS

DEPARTMENT FOR AF/EPS (POTASH)
DEPARTMENT PASS TO USTR (HAMILTON)

E.O. 12598: N/A
TAGS: [ETRD](#) [AGOA](#) [ECON](#) [ET](#)
SUBJECT: ETHIOPIA AGOA ELIGIBILITY RECOMMENDATION

Ref: State 132189

[1](#)1. Country: Ethiopia
Current Status: Eligible

COUNTRY BACKGROUND SUMMARY

[1](#)2. After a difficult period of socialist dictatorship and civil war, the government of Ethiopia (GOE) in the early 1990s began a transition towards a more open economic system. While government and ruling party-affiliated enterprises retain a prominent role in the economy, the GOE also steadily increased the role of the private sector by liberalizing investment and foreign trade rules, and accelerating privatization. There are no special barriers to U.S. trade and investment, although a number of sectors remain closed to foreign investment.

[1](#)3. Ethiopia continues to progress towards a more democratic political system. The elections in May, 2005 were the most openly contested in Ethiopia's history and gave birth to the country's first truly multiparty Parliament. Despite some irregularities, the results of the election were generally credible. Within parliament, concessions were made in committee leadership profiles and provisions for questioning executive branch officials in an effort to accommodate the substantial opposition presence. The opposition parties in parliament have responded by being vocal representatives of alternative viewpoints. Outside of parliament, ruling and opposition parties sought to substantively engage each other through a process of inter-party dialogue to address fundamental issues of democratic reform, institution building, and governance. Harassment of opposition leaders and supporters at a local level in rural areas continued to persist throughout 2006. 4. While the first half of 2007 was marked by the trial of prominent journalists and opposition leaders, the Ethiopian government's pardon of most of these individuals in July 2007 represented a magnanimous gesture and an opening for further positive political engagement in the second half of the year.

Comments on Eligibility Requirements

[1](#)5. MARKET-BASED ECONOMY- STRENGTHS IDENTIFIED:
--GOE Promotion of the Private Sector.
--The Prime Minister has stated repeatedly and publicly that private-sector-led economic growth is his top priority. The GOE has embarked on a number of reforms to promote the private sector. This has resulted in strong economic growth in recent years, particularly in construction, services, trade and industry.
--Ethiopia has formally applied for membership in the WTO. Ethiopia submitted a Memorandum of Foreign Trade Regime to the WTO in December 2006. With technical assistance on WTO accession from a number of donors, including the USG, substantial progress has been made in drafting new legislation and in capacity building relevant

to accession.

--The Private and Public Enterprise System Authority has stepped up the transfer of state owned enterprises to the private sector, including garment, tannery, cement, blanket and shoe factories.

--In the past years, the GOE also made significant progress, with assistance from the USG, in reducing the number of days to register a business from 46 to half a day -placing Ethiopia at the top of this indicator in the Millennium Challenge Corporation scoring.

--The GOE has initiated capacity-building programs to boost the competitiveness of local manufacturers and maximize export possibilities. It has introduced an Export Credit Guarantee scheme and gives exporters rebates on duties paid on raw materials used to produce export goods.

--Garment export sector incentives include duty free machinery imports, low interest loans at easy terms, and assistance in obtaining land. Pre-inspection of imports has been abolished, along with all taxes on exports, and the Customs window is now open 16 hours a day.

--International air freight and passenger links have been expanded. In 2005, Ethiopia and the U.S. signed an Open Skies Treaty. A large cold storage facility has been built at the Addis international airport to handle perishable exports and additional cold storage facilities are under consideration.

--USAID launched a US\$ 20 million, five-year Agribusiness and Trade program in partnership with the GOE in September, 2006. The project is a market-led effort to increase exports in four key sectors: horticulture, coffee, leather, and oilseeds/pulses. The program projects a US\$450 million increase in exports over the next three years.

--In 2006, the value of investment permits issued by the Ethiopian Investment Agency rose by 11 % over 2005. Some 1150 permits in total to date have been issued to foreign firms, with a registered capital of US \$5.2 billion. Much of this investment has not yet materialized, but there have been some significant investments in

ADDIS ABAB 00003036 002 OF 006

hotels, textiles, cement, floriculture, horticulture, aluminum, and construction.

--The Ethiopian investment code guarantees free transferability of dividends, loan repayments, and capital. It also guarantees compensation for expropriation. It allows joint ventures in the electrical energy and telecommunication areas and significantly reduces the minimum capital requirement for foreign investors. The Investment Commission now has the authority to provide an expedited, one-stop service to investors.

--There are no trade treaty issues with Ethiopia, since Ethiopia is neither a WTO member nor a bilateral trade treaty partner. Economic relations between the U.S. and Ethiopia are governed by the 1953 Treaty of Amity and Economic Relations. The GOE has expressed an interest in negotiating a bilateral investment treaty and a bilateral tax treaty with the United States.

--There are no special barriers to U.S. trade and investment, though several sectors, such as financial services are closed to foreign investment.

--The U.S. trade surplus with Ethiopia was US\$54.5 million in 2006, indicating a decrease of US\$397 million compared to that of 2005. While the US\$135.6 million in U.S. exports to Ethiopia in 2006 was, down 73.6% from the previous year, the 2005 level was unusually high due to significant aircraft sales.. Corresponding U.S. imports from Ethiopia were US\$81.1 million, up 31.2% from 2005, in large part because of AGOA. In 2005, the U.S. approved Category 9 AGOA privileges for Ethiopia

--For the first six months of 2007, U.S. exports to Ethiopia were US\$64.3 million and U.S. imports from Ethiopia US\$38.3 million, leaving a trade surplus of US\$ 26 million in favor of the U.S.

--In August 2005, Boeing concluded a US\$1.5 billion deal with Ethiopian Airlines for the sale of 10 Boeing 787 aircraft. EAL subsequently announced it would purchase US\$ 330 million in GE engines for these aircraft. Financing for the deal was secured in August 2007.

--The following U.S. firms have recently entered joint venture arrangements with Ethiopian firms:

--American businessman Victor Ozeri and a local entrepreneur, Mrs. Lily Betry are establishing a garment factory worth \$ 3-5 million. When open, the factory will provide about 1,000 jobs for Ethiopians.

--RX Africa, a Delaware company, has established a partnership with an Ethiopian-owned pharmaceutical factory.

--Pacific Link International, has started operations in the real estate sector. Its start up capital is close to \$11 million. The company is also seeking buyers for AGOA eligible products.

--Ethiopia became a member of the World Intellectual Property Organization in 1998 but is not a party to any major international IPR treaty.

--Ethiopia has enacted a series of new laws pertaining to major areas of intellectual property rights, namely, copyright and related rights, plant varieties, and trademarks.

--The 2004 comprehensive copyright law improved protection for literary and artistic works, and extended protection for the rights of performers, producers of phonograms, and broadcasting organizations. In 2006, a new trademarks law was enacted which will bring Ethiopia's trademark law into line with TRIPS.

--In addition, Ethiopia is in the process of developing new laws for the protection of geographical indications and for data protection.

--The government has consolidated various intellectual property rights protection offices into one agency, the Ethiopian Intellectual Property Rights Office, to strengthen enforcement.

--The Ministries of Trade and Industry and Justice are working on a revised commercial code that would further enhance provisions for protection of intellectual property.

16. MARKET-BASED ECONOMY- MAJOR ISSUES/PROBLEMS IDENTIFIED:

--The state remains heavily involved in many economic sectors, and parastatal and party-affiliated companies are frequently favored with government contracts, to the detriment of the emerging private sector despite the government's professed backing of private sector-led growth.

--All land is owned by the state; there is no private ownership. Ethiopia's administrative regions establish their own land title certification systems and lease regulations; lease terms may extend up to 99 years. USAID has been working with regional governments to improve land registration and otherwise increase land tenure security.

--Ethiopia has yet to sign a number of major international IPR treaties, such as: the Paris Convention for the Protection of Industrial Property; the WIPO Copyright Treaty; the Berne Convention for Literary and Artistic Works; and the Patent Cooperation Treaty.

--The strict foreign exchange control regime administered by the National Bank of Ethiopia (the central bank) complicates importation of goods. An importer must apply for a permit and obtain a letter of credit for 100 percent of the value of imports before an order can be placed. Supplier credit is generally not allowed.

--While the banking and insurance sector is open to domestic private investors, foreign investors may not participate. Joint ventures with foreign companies are permissible by law in the telecommunications sector, but in reality the government-owned

ADDIS ABAB 00003036 003 OF 006

Ethiopian Telecommunications Corporation (ETC) retains a monopoly in most business areas.

--The government controls all clearing and forwarding operations for ground transportation of imports and exports.

--Although an August 2005 directive allows private companies to serve as internet service providers (ISPs), no implementing regulations have been promulgated and the internet remains a monopoly of the state telecommunications monopoly ETC.

--Laws prohibiting foreign financial institutions from operating in Ethiopia restrict competition and reduce quality of service and competition in the financial sector.

17. POLITICAL REFORMS/RULE OF LAW/ANTI-CORRUPTION- MAJOR STRENGTHS IDENTIFIED:

--After decades of dictatorship, Ethiopia began in 1991 to move towards a federal system of governance. The third national elections in May 2005 were the most open in Ethiopia's history. The Government implemented a number of pro-democratic reforms leading up to the election, including amending electoral laws to make it easier for parties to nominate candidates, providing equal media access to opposition candidates, and allowing international observers.

--Parliament and parliamentary rules were modified in 2006 to allow for increased debate and opposition participation. Inter-party dialogue continues on further reforms to the National Electoral

Board and the legal framework for the media.

--The Ethiopian government is organized on the concept of ethnic federalism. The GOE has devolved greater power and resources to the regions and sub-regions--- "woredas" (districts) and "kebeles" (local councils) -- to implement development plans based on local priorities.

--Routine bureaucratic corruption is less pervasive than elsewhere in the region. The latest UN Investment Guide to Ethiopia (2004) points out that, according to the private sector, bureaucratic corruption is virtually non-existent in Ethiopia. The guide adds that bureaucratic delays and difficulties certainly exist, but they are not generally devices by which officials strive to line their pockets.

--The Ministry of Justice and the Anti-Corruption Commission are the Government entities with the primary responsibility to combat corruption. The Anti-Corruption Commission has arrested many officials, including managers of the Privatization Agency, Customs, and the state owned Commercial Bank of Ethiopia, and charged them with corruption.

18. POLITICAL REFORMS/RULE OF LAW/ANTI-CORRUPTION- MAJOR ISSUES/PROBLEMS IDENTIFIED:

--While most observers of the May 15 election, including the Carter Center, reported that election-day polling and tabulation were generally credible and that the EPRDF won, they also noted that intimidation and irregularities occurred, and that the results lacked credibility in a considerable number of constituencies. Observers from the European Union stated that the elections failed to meet international standards, but saw them as an important step forward in the democratic process.

--Despite their unprecedented success at the polls, the opposition parties rejected the election results. While most opposition MPs-elect did join parliament, the post-election closure of political space has caused many Ethiopians to question the government's commitment to democratic reform and caused many investors to question the country's political stability.

--Responding to post-election frustration, the Government closed many private newspapers, charging journalists, publishers, and editors with capital offenses; closed down most opposition party offices seizing their records; minimized state-owned press coverage of opposition parties' activities; and charged those advocating civil disobedience with crimes against the government.

--Arbitrary arrest and detention, including detention without charge and allegations of torture, remained serious problems. Authorities denied detainees access to counsel or family members.

--Security forces killed demonstrators and beat or mistreated detainees with impunity.

--The judiciary is weak and overburdened. According to the Constitution, accused persons have the right to a public trial by an ordinary court of law within a reasonable amount of time. However, lengthy pretrial detention is common, closed court proceedings occur, and detainees are sometimes denied access to their legal counsel and visits from family members. Many perceive the judiciary to be subject to significant political intervention.

--The law provides for public access to government information, but access was largely restricted in practice.

--Ethiopia's Corruption Perception Index score from Transparency International remained stable between 2006 and 2007 at 2.4 ranking it 138 out of 179 countries rated in 2007. While there is virtually no bureaucratic corruption, many observers believe corruption in the form of conflicts of interest to be rampant within government and business. Preferential treatment is at times accorded by the GOE to state-and party-owned enterprises and party patrons in the commercial and economic sphere seeking: access to foreign exchange and credit, government tenders and privatization.

ADDIS ABAB 00003036 004 OF 006

19. POVERTY REDUCTION- MAJOR STRENGTHS IDENTIFIED:

--GOE policy since the end of the war with Eritrea has been to reduce the share of the budget devoted to the military and to use the 'peace dividend' for poverty alleviation, food security, and capacity building programs. The share of government expenditure on social services is now growing at about 30% a year according to the World Bank.

--Ethiopia sets its poverty goals in its Poverty Reduction Strategy

papers (PRSPs). The first PRSP covered the three-year period 2002-2005. The GOE is currently implementing its second PRSP, known as the Plan for Accelerated and Sustained Development to End Poverty (PASDEP). This is a five year (2005-2010) framework for aligning MDG goals and donor support.

--Ethiopia implemented an International Monetary Fund- and World Bank-supervised poverty reduction strategy. It completed a three-year poverty reduction and growth facility (PRGF) with the IMF in 2004 and is reportedly contemplating a new IMF program.

--The GOE has targeted food security, agriculture-led industrialization, health, education, fiscal decentralization, infrastructure development (roads, bridges, hydropower, telecommunications), and capacity-building down to the district level as development and poverty reduction priorities.

--The GOE has developed, in harmony with donors, a number of instruments to reduce vulnerability to chronic famine, such as the Productive Safety Net Program which provides the payment of food or cash in return for public works.

--Ethiopia devotes a significant part of its budget to infrastructure: the 2006/07 infrastructure budget was 42.6 percent, slightly higher than in 2005/06, and its 2007/08 budget, unveiled in July, is 41.6 percent marginally lower than in 2006/07.

--Some donor community funding was briefly withheld put on hold after the 2005 election, in reaction to the GOE response to post-election violence. This forced the GOE to cut back somewhat on planned capital projects. Donors have now reengaged at even a higher level, although the mechanism has been changed from one of direct budgetary support (DBS) to providing funds to local government entities through a new program, the Protection of Basic Services (PBS) grant. Under PBS, aid funds are targeted, tightly monitored, and directed at the regional and district levels.

--Ethiopia is participating in the enhanced HIPC initiative and has received debt relief totaling nearly \$4 billion. The external debt burden has been reduced to less than \$2 billion.

10. POVERTY REDUCTION- MAJOR ISSUES/PROBLEMS IDENTIFIED:

--Ethiopia ranks among the poorest and most vulnerable countries in the world. Any major shock, natural or economic, can push millions of people into destitution very quickly. Two major vulnerabilities are weather and external assistance.

--Ethiopia has received above normal rainfall in the last three years, and the Productive Safety Net Program is believed to have removed up to five million people from the number of chronically food-insecure Ethiopians that need food assistance. However, the country is still far from reliably feeding itself. Safety nets currently in place for the next severe drought cover only a fraction of those at risk and opposition groups allege that the government threatens to withhold Safety Net support and basic services from opposition supporters. The Safety Net is a predictable, multi-year program that is designed to smooth consumption and protect household assets while creating community assets. It is not designed to mitigate the effects of drought per se, although a contingency financing mechanism to protect the program against a drought year has been established.

While the allegation of politically motivated targeting for PSNP has been noted in earlier years of the program, it has not been noted as a wide scale problem, nor identified in last year's independent assessment or targeting within the PSNP.

--Millennium Development Goals calls for cutting poverty in half by 2015. Achieving this target will require higher rates of economic growth, substantial improvements in productivity, increased foreign aid, greater private sector involvement and a much greater expenditure on infrastructure.

--Domestic sources of financing are inadequate for current levels of spending growth, and so the current budget calls for a sharp (34 percent) increase in planned external assistance. Foreign donors have indicated they will provide substantial additional aid, but Ethiopia is clearly increasingly vulnerable to donor good will, and is likely to remain heavily dependent on high levels of donor funding for some time to come.

--Progress in addressing governance concerns will be essential in order to assure adequate levels of external assistance.

--Ethiopia is a candidate for U.S. Millennium Challenge Account funding, but due to low scores on some of the indicators used to determine eligibility, has not yet qualified for funding. It has expressed interest in the MCC Threshold Program.

11. WORKERS RIGHTS/CHILD LABOR/HUMAN RIGHTS: MAJOR STRENGTHS

IDENTIFIED:

--The right to form labor associations and to engage in collective bargaining is guaranteed by the Constitution; however, workers who perform essential services are not permitted to strike.

ADDIS ABAB 00003036 005 OF 006

--Most ILO Core Labor Standards have been enacted into law; the Ethiopian Parliament has ratified all eight core ILO labor standards, including Convention 182 on the Worst Forms of Child Labor.

--The Government re-certified the Confederation of Ethiopian Trade Unions (CETU) in April 1997. Since its re-certification, CETU has focused on fundamental workers' concerns, such as job security, pay increases, and health and retirement benefits.

--Tripartitism emerged in May 1998 when the Government licensed the Ethiopian Employers' Association (EEA). The EEA is dedicated to maintaining labor peace and works in conjunction with the ILO, CETU and the Ministry of Labor and Social Affairs. Its leadership supports the adoption of all ILO Core Labor Standards.

Entrepreneurs generally believe that cooperating with labor is in their self-interest.

--Child labor is not a pressing issue in the formal economy, though it is common in rural areas and in the urban area informal economy. Employers are statutorily prohibited from hiring children under the age of 14. There are strict labor laws defining what sectors may hire "young workers," ages 14 to 18, but these are not always enforced.

--The ILO has determined that there is no problem of forced labor in agriculture, nor is there a problem of child soldiers. The Ethiopian army is all-volunteer and attracts sufficient volunteers aged 18 and older.

--In May, 2005, Ethiopia enacted a new penal code criminalizing most forms of human trafficking.

--The law provides for freedom of religion, and the government generally respects this right in practice.

--The government took some measures to eradicate Female Genital Mutilation (FGM), which is a pervasive problem in Ethiopia.

12. WORKERS RIGHTS/CHILD LABOR/HUMAN RIGHTS- MAJOR ISSUES/PROBLEMS IDENTIFIED:

--Although the law provides for worker rights, unions have reported that employers frequently fired workers who participated in union activities. Anti-union discrimination was prevalent in the workplace. Strikers have also found it difficult to conduct strikes.

--The ruling party tightly controls the leadership of the Confederation of Labor Unions and often influences union elections.

--Unemployment is high and poses major challenges to worker organizing and poverty reduction.

--Child labor remained a serious problem, both in urban and rural areas. There have been reports of forced or bonded child labor.

--According to the Department's annual Human Rights Report, the Government's human rights record remained poor; although there were improvements, serious problems remained.

--Security forces committed unlawful killings -- including politically-motivated killings -- and beat, tortured and mistreated detainees. The independent Commission of Inquiry, charged with investigating the political violence of 2005, estimated that security forces killed 193 civilian protestors. The previous estimated death toll was 80 civilians. The government denied the International Committee for the Red Cross access to certain political prisoners.

--Political detainees were held incommunicado in unsanitary detention facilities without light, and were denied access to adequate medical care.

--Credible reports suggest that government pressured and intimidated the independent Commission of Inquiry, charged with investigating the political violence of 2005, into changing its findings. Several members of the commission have resigned and/or fled the country for fear of persecution.

--Government officials and members of the security forces harassed individuals and their families to prevent them from joining or remaining in opposition parties. Security forces detained family members of persons sought for questions by the Government. There were reports of forced displacement of rural families.

--Domestic violence is a pervasive problem, yet there is no specific

law regarding domestic violence or sexual harassment.

--Ethiopia is ranked as a Tier II trafficker, according to the USG's 2006 Trafficking in Persons report, that is, not fully complying with the Trafficking Victims Protection Act but taking significant steps to bring itself into compliance. The report states that Ethiopia should improve its capacity to investigate and prosecute trafficking crimes and public awareness of the problem through educational outreach.

--Significant restrictions on political and civil liberties remain, including on the right of assembly and the right of association. The Government continues to arrest and detain persons arbitrarily, particularly those suspected of sympathizing with or being members of the Oromo Liberation Front (OLF). Several hundreds of suspects remained in detention without charge, and lengthy pretrial detention continued to be a problem. The Government continues to infringe on citizens' privacy rights, and the law regarding search warrants is often ignored, particularly in rural areas. Since May 2005, only one permit has been granted for a public demonstration.

--Press freedom was restricted in the wake of November 2005 violence. Relations between the government and the private press

ADDIS ABAB 00003036 006 OF 006

were less strained in 2006, but journalists were still harassed, detained, and given jail terms. While there are independent voices in the print media, a degree of self-censorship is practiced. The broadcast media, radio and television, are government controlled and only infrequently air opposition voices. Politically and ethnically motivated conflicts continue, periodically leading to deaths and internal displacement of people.

--The opening of more democratic space - for the opposition, civil society, and the media - remains the central issue. Freedom House's Freedom in the World Index ranking for Ethiopia again this year was "Partly Free".

¶13. INTERNATIONAL TERRORISM/U.S. NATIONAL SECURITY- MAJOR STRENGTHS IDENTIFIED:

--Ethiopia has been a strong supporter of the global war on terrorism. There is a high level of cooperation on military and intelligence issues.

¶14. INTERNATIONAL TERRORISM/U.S. NATIONAL SECURITY- MAJOR PROBLEMS/ISSUES IDENTIFIED:

--None

MALAC